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Labour Policies, Employment & Worker Earnings: Indian & International Experiences

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LABOUR POLICIES, EMPLOYMENT AND WORKER EARNINGS: INDIAN AND INTERNATIONAL EXPERIENCES

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ABSTRACT: Over the last 25 years or so, the East Asian countries have achieved among the highest rates of growth of gross domestic product as well as of employment and real earnings per employee. India's performance **has not** been so good by any of these measures. Therefore, in this paper, we consider the **labour** market policies in East Asia and India in an attempt to understand the role that the **labour** laws in these countries might have played in these differing outcomes. We consider the laws and policies relating to unions, industrial relations, job security for workers, the wage, bonus and promotion policies, and worker training and re-training facilities in East Asia and India. We consider what has been the balance between the efficiency and social aspects, and what impact this balance has had on the workers' welfare, such as the availability of employment and growth of real earnings per employee. We conclude the paper with suggestions for reforming India's **labour** laws to make **labour** more productive and thereby generate more employment and higher earnings per employee.

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LABOUR POLICIES, EMPLOYMENT AND WORKER EARNINGS

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Introduction

Labour is perhaps the most important factor of production since other factors of production can not work without it. Thus, efficient use of the **labour** endowment of the *country* is crucial for rapid economic growth (see e.g., **Sala-i-Martin**, 1990; Lucas, 1988; **Rebelo**, 1991).

For efficient use of **labour**, it is important to: (i) make **labour** as productive as possible by providing suitable work incentives for working well through the wage, bonus and promotion policies and through appropriate education and training, (ii) have smooth industrial relations by creating proper mechanisms for resolution of conflict between **labour** and management so that loss of working days due to strikes etc. can be minimized. (iii) keep **labour** use flexible to more effectively deal with various shocks to the economy and with shifts in its **sectoral** comparative advantage etc.. by allowing easy retrenchment and retraining of workers and, (iv) minimize distortions and interventions in the labour market.

At the same time, **labour** is a unique factor of production since workers are human beings, not commodities. Thus **labour** policies also have a significant social dimension to them. From this **perspective, certain labour markets interventions to safeguard the interests of workers can be** considered justifiable, e.g., **freedom** to form unions, the minimum wage laws, the provision of some job security, unemployment insurance, subsidized facilities for retraining in case of retrenchment, etc.

While some economists have emphasized the social aspects, arguing that state interventions such as **minimum wage and job security regulations, are necessary to promote the welfare of the workers** (e.g., Standing and Tokman, 1991; ILO, 1990), others have emphasized the efficiency aspect of **labour** markets, arguing that state interventions such as the minimum wage and job security provisions may reduce employment, productivity and growth and thus hurt the workers in the long run (see e.g., Krueger, 1974; Olson, 1982; **Lazear**, 1990; **Fallon** and Lucas, 1991; World Bank, 1990). In reality, both aspects are important to some extent and the choice is not between the two aspects but in striking a proper balance between them (Freeman, 1993).

Labour markets play a significant role in determining the success of the economic restructuring policies and their impact on the population. Furthermore, when economic restructuring is undertaken to make the economy more open and competitive, the **relative** importance of the efficiency aspect increases (Horton, Kanbur and Majumdar, 1991).

Since 1970 or so, the East Asian countries have achieved among the highest rates of growth of gross domestic product (GDP) as well as of employment and real earnings per employee. India's performance has not been so good by any of these measures. Therefore, in this paper, we consider the **labour** market policies in East Asia and India in an attempt to understand the role that the **labour**

laws in these countries **might** have played in these differing outcomes. We consider **the laws** and policies relating to unions, industrial relations, job security for workers, the wage, bonus and promotion policies, and worker training and re-training facilities in East Asia and India. We consider what has been the balance between the efficiency and social aspects, and what impact this balance has had on the workers' welfare, such as the availability of employment and growth of real earnings per employee. We conclude the paper with suggestions for reforming India's **labour** laws to make **labour** more productive and thereby generate more employment and higher earnings per employee. These reforms assume greater importance in view of the economic reforms undertaken by India over the last five years to make the economy more competitive and globally integrated.

Labour Policy in East Asia and India

The East Asian countries have achieved their remarkable success in economic growth by using the strategy **of** export-oriented industrialization, and (often) large **inflow**s of foreign direct investment **to augment domestic capital formation. But success in the highly competitive export markets and** in attracting foreign capital would not have been achieved if East Asian countries had been unable to provide disciplined, motivated, well trained and cost effective **labour**. Thus it is that East Asian governments have laid much greater emphasis on efficient and flexible use of **labour** than in most other parts of the world. This emphasis, often combined with other socio-political dimensions such as military dictatorships and the excessive fear of communism (given their proximity to China and North Korea), led to a certain fear of organized **labour**, often resulting in repression of the **labour** unions by most East Asian governments. This was particularly severe in Korea, Taiwan, Indonesia, and Thailand. Following democratization, Korea has moved in the direction of more balanced industrial relations environment since the late 1980s. Taiwan also seems to be moving in that direction more gradually following political democratization in 1987.

Singapore and Malaysia had inherited liberal trade union laws from **the** British Colonial rule. **However** in Singapore, the **communist labour** unions were purged as part of a major political power struggle in the early 1960s. The government then formed an alliance with the more moderate trade unions under the umbrella of National Trade Union Congress (NTUC) and **the two** have cooperated with each other so that while unions were not entirely free, the interest of **labour** was taken into **consideration by the government. New labour laws were passed** in 1967-68 (**discussed later in this section**) that had far reaching effects on industrial relations in Singapore. Malaysia also tightened its **labour** laws through its Industrial Relations Act, 1967, following several years **of labour** strife. Yet, of the six East Asian countries, Malaysia and Singapore probably have the least repressive laws and judicial system to deal with **labour** problems.

In sharp contrast to the East Asian countries, India, which also inherited the liberal trade union laws from the British, further strengthened protection of **labour**, including freedom to form **unions**, right to strikes and almost complete job security.

A simple measure of the relative strength of the **labour** unions and their ability to bargain on behalf of the workers is provided by the share of workers' earnings in total value added. Table

**Table 1 : Worker's Earnings as Share of Value Added, Manufacturing Sector,
East Asia and India, 1972-92.**

Y E A K	India	Indonesia	T h a i l a n d	Malaysia	Korea	Singapore	East Asia AVG ¹	Developed Country AVG ¹	Lat. Amer. AVG ¹	South Asia AVG ¹
1972	54.20	23.50	16.33	29.30	23.50	35.40	25.61	43.80	26.55	36.55
1974	43.60	23.90	16.40	26.90	23.20	30.20	24.12	41.50	22.63	33.94
1976	43.30	21.60	16.33	27.90	24.80	33.10	24.75	42.87	18.90	33.72
1978	48.60	23.80	16.20	26.20	27.10	33.40	25.34	41.77	19.36	33.19
1980	50.70	21.10	15.34	28.00	29.30	29.70	24.67	41.50	20.66	33.83
1982	48.60	25.20	15.54	32.10	27.50	35.10	27.09	41.30	17.70	33.32
1984	50.30	24.00	15.61	28.50	26.30	36.50	26.18	39.33	16.12	32.10
1986	49.40	22.70	15.61	29.10	26.20	31.70	25.06	39.43	15.90	33.23
1988	43.40	22.50		25.90	28.40	28.20	26.25	36.77	15.25	32.43
1990	38.80	19.80		27.00	27.60	31.70	26.53	36.87	16.36	38.13
1992	37.60	19.50		26.90	25.80	33.70	26.48	37.83	8.95	37.60
Average (1972-92)	46.42	22.48	15.89	27.90	26.55	32.83	25.74	40.26	18.06	34.04

NOTE: 1. The developed country average is over USA, Japan, UK and France, the Latin America average is over Argentina, Chile, Brazil and Mexico and the South Asia average is over India, Bangladesh and Pakistan.

SOURCE: ILO, Geneva, YEAR BOOK OF LABOUR STATISTICS, 1993, 1985, 1976, and 1966.

1 shows this share for the manufacturing sectors in East Asia and India; for comparison the table also provides the averages for developed countries (USA, Japan, UK and France), Latin America (Argentina, Chile, Brazil and Mexico) and South Asia (India, Pakistan, and Bangladesh). One may expect this share to be higher for the more developed countries due to higher levels of human capital endowment of the workers. The table shows that the share has been around 40 percent in the developed countries, and even higher in India (46 percent) reflecting the strength of unions in India. Among the East Asian countries, Singapore and Malaysia have the highest share at about 33 percent and 28 percent. Korea shows an average share of about 26.5 percent which is low for its level of **development**. It shows **some improvement in 1988, following a year of major labour strife and wage increases**, but the gain has not been sustained into the nineties. The share of workers' earnings in total value added appears very low in Indonesia and Thailand at about 22.5 and 16 percent respectively, suggesting very poor bargaining position of the **labour**. This evidence is consistent with the discussion in the preceding paragraphs.

Figures 1 and 2 show indices of employment and real wages in the manufacturing sector in East Asia, India and averages for the developed countries: East Asia, South Asia, and Latin America. It is seen that India has achieved very limited success in either increasing employment or **real wages** of its workers. On the other hand, the East Asian countries have done remarkably well in generating employment for their workers and in improving their real wages compared to any other group of countries (Figures 1 and 2).

Thus, we see that even though India's protective labour laws and strong **labour** unions have been able to obtain a larger share of the (value added) pie for their members, it is the East Asian countries, which have emphasized efficient and flexible use of **labour**, that have raced ahead in generating employment and growth of real earning per employee -- and these are the things that count most for the working class in a developing country. This is an interesting **contrast** and worthy of serious thought by those concerned with the welfare of the working class in developing countries.

Clearly, **in the long run, the high rate of growth of real wages is sustainable only through a** corresponding increase in the productivity per employee. This requires a motivated and well-trained work force. A harmonious industrial relations climate helps attract more capital, both domestic and foreign, which in turn increases employment and or capital employed per worker (a major determinant of productivity per worker). Figure 3 shows that the productivity per worker has also risen more rapidly in the East Asian countries than in most other major regions of the world. Thus, it is worth considering how East Asian countries have managed to have a productive, efficient and flexible **labour** force and a peaceful industrial relations climate. We try to understand the economic and social forces behind it in the rest of this section. In view of the repressive or under developed industrial relations environment in many East Asian countries, we focus more on the legal framework in Malaysia and Singapore.

Laws Relating to Forming Labour Unions

The usual legal protection for joining **labour unions** and **for undertaking industrial action (such as**

collective bargaining and strikes) **exists in most East Asian countries although most countries also** have provisions for not registering unions considered undesirable and to impose restrictions on the causes for which industrial action can be initiated and specify the procedure to be followed.

To form a union requires the support of 30 workers or 20 percent of the employees. Perhaps due to the influence of Japanese tradition (Korea and Taiwan were colonies of Japan for nearly 50 years preceding the second world war), some East Asian countries have in-house unions, that is, only one union per **plant** or **firm** representing all employees of the plant or firm. Thus a union must have *the* support of majority of workers in the firm. Malaysia and Singapore also allow industry wide unions, but this is not allowed in some countries, at least not for purposes of bargaining or undertaking industrial action. This considerably reduces their power. At the same time the in-house unions have **the advantage** that **due to continuous contact with management, the two sides have better** communication and understanding of each other. Basically, the concept works well in case of large firms, now common in Japan and becoming common in Korea.

In many East Asian countries, the right to form unions is limited to the private sector - unions are not allowed in the public sector. Even in countries where they are allowed (Malaysia and Singapore), there right to go on strike are quite limited.

In most countries in East Asia (Malaysia, Indonesia, Taiwan), the **labour** unions are not allowed to have any association with the political parties (in practice this has sometimes meant no association with opposition political parties). This has been done to avoid industrial relations becoming proxy wars for political parties, rather than representing genuine worker concerns.

By contrast, in India any seven employees can form a union. This provision has led to the **mushrooming of a very large number of unions**, some of which are floated by employers to counter the more aggressive workers' unions. The workers in the **public** sector can and often do go on strikes. Further, major trade union confederations are closely associated with political parties. The resulting **union rivalries have been an obstacle to the development of a sound industrial relations system in** India. Following the economic reforms beginning in 1991, the Act was revised in 1993 and now requires a minimum membership of 10 percent of employees in any firm. This should reduce the number of unions and resulting rivalries.

Laws Relating to Industrial Relations

In most East Asian countries, trade union laws provide for legal immunity from prosecution for industrial actions such as strikes. However, fairly stringent restrictions have been placed on what constitutes a legal strike. To be legal, strikes usually require approval of the action by a majority (213 in Malaysia) of union members by secret ballot. This has to be followed by a notice to employer and a cooling off and conciliation period (usually 15 to 45 days) before strike can be actually called. Further, industrial relations laws in most East Asian countries limit the reasons for which legal strikes can be called. For example, in Singapore and Malaysia, the following '**fundamental management functions**' are the sole right of employers (since 1967-68) and can not be disputed by

Fig1a: Index of Employment in the Manufacturing Sector, 1972-92

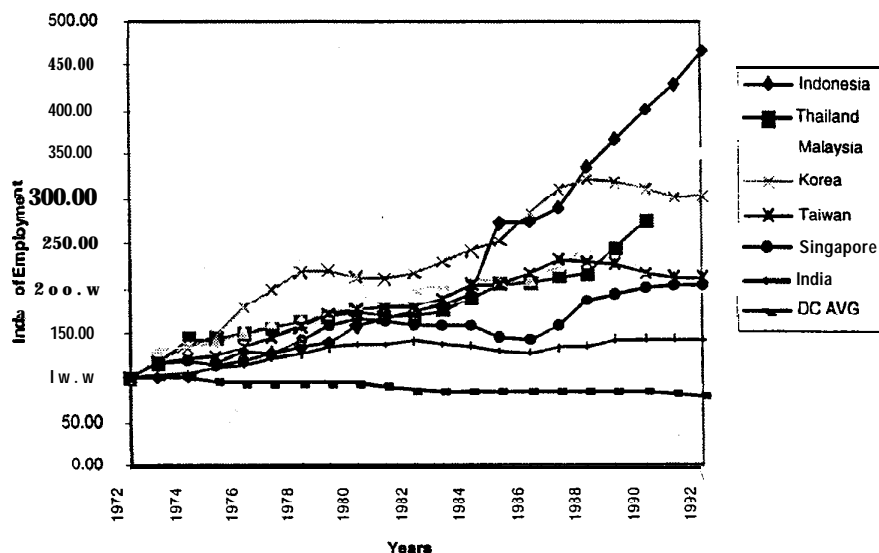
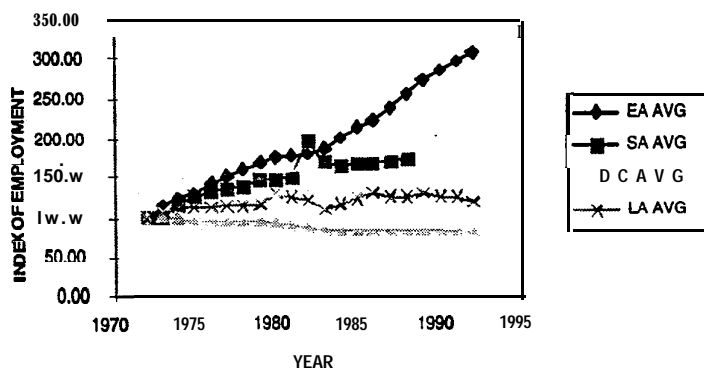


Fig1b: INDEX OF EMPLOYMENT IN THE MANUFACTURING SECTOR



Source: World Bank, World Tables, 1994-95

Note: EA Avg: Average for the Six East Asian Countries
 SA Avg: Average for South Asia (India, Bangladesh, Pakistan, Srilanka).
 DC Avg: Average for Developed countries (USA, Japan, UK, France)
 LA Avg: Average for Latin America (Argentina, Chile, Brazil, Mexico)

Fig 2a: Index of Real Earnings in the Manufacturing Sector, 1972-92

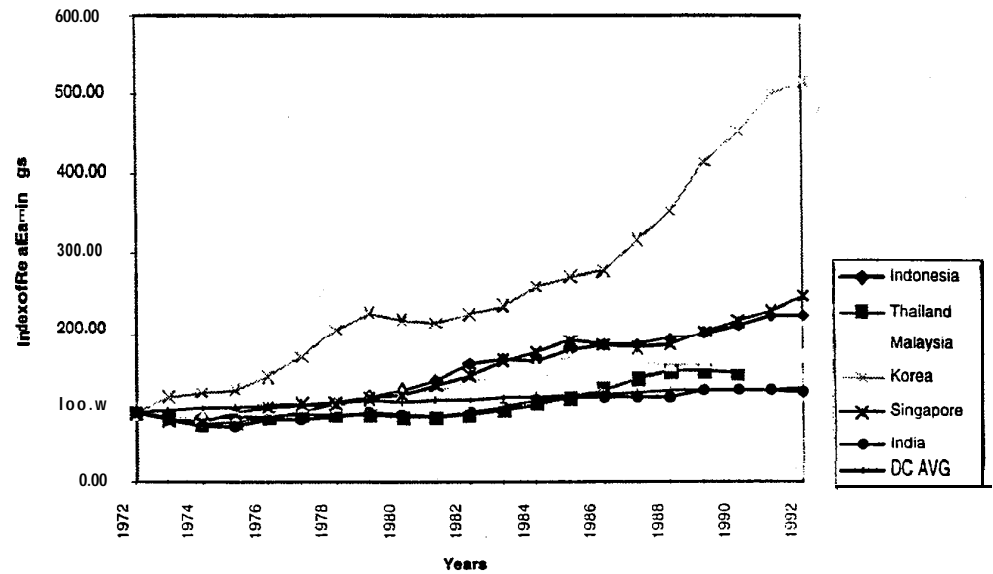
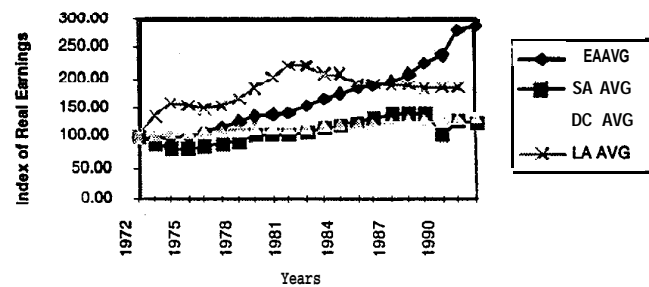


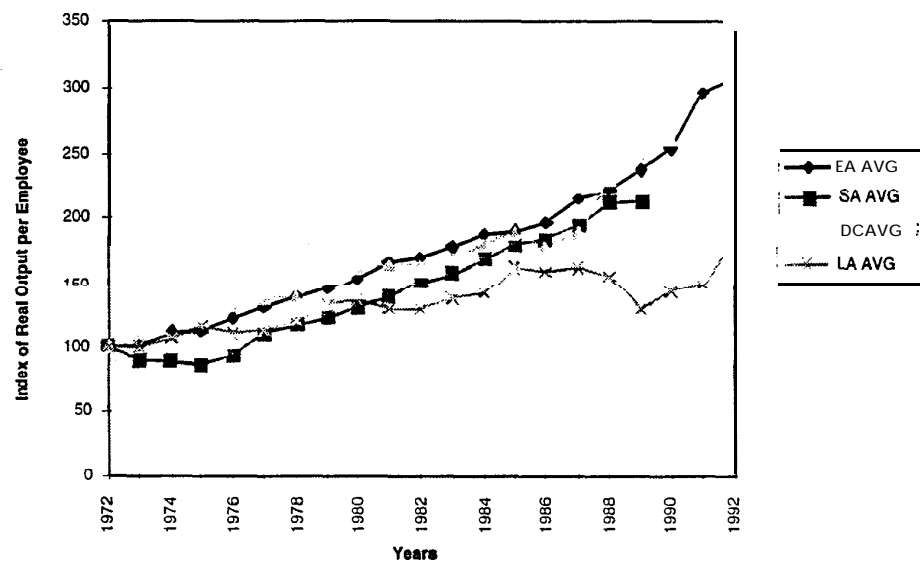
Fig2b: Index of Real Earnings in the Manufacturing Sector, 1972-92



Source: World Bank, World Tables, 1994-95

Note: EA Avg: Average for the Six East Asian Countries
 SA Avg: Average for South Asia (India, Bangladesh, Pakistan, Srilanka).
 DC Avg: Average for Developed countries (USA, Japan, UK, France)
 LA Avg: Average for Latin America (Argentina, Chile, Brazil, Mexico).

Fig3: index of Real Output Per Employee in the Manufacturing Sector, 1972-92



Source: World Bank, World Tables, 1994-95

Note: EA Avg: Average for the Six East Asian Countries
 SA Avg: Average for South Asia (India, Bangladesh, Pakistan, Srilanka).
 DC Avg: Average for Developed countries (USA, Japan, UK, France)
 LA Avg: Average for Latin America (Argentina, Chile, Brazil, Mexico)

labour unions:

- a) recruitment, promotion, or internal transfer of an employee
- b) assignment or allocation of duties or specific tasks to an employee
- c) retrenchment of an employee due to redundancy or reorganization
- d) dismissal of an employee for misconduct and his reinstatement.

Anyone (including union officials) who incites workers to take part in illegal strikes faces prosecution and fines in some East Asian countries, including Malaysia and Singapore. Further, no worker who refuses to take part in an illegal strike can be expelled from the union or put to any disadvantage compared to other union members. These changes in the industrial relations acts in 1967-68 has had far reaching effects on the industrial relations climate in Malaysia and Singapore and has drastically **reduced the incidence of strikes** and lockouts (**Table 2**).

Further, most East Asian countries have developed a system of voluntary and compulsory arbitration of all labour-related disputes by tripartite bodies including representatives of workers, employers and government. Since the government appointees usually end up having the deciding say, a balanced approach on the part of the government is essential for the system to work properly. The system is generally considered to be reasonably fair in Malaysia and in Singapore since 1979, at least in matters of wage-related disputes. This allows for most disputes to be resolved without having to resort to strikes and lockout. This **further** explains the very low incidence of strikes and lockouts in Malaysia and Singapore ■ in fact Singapore has not **had a single strike** since 1978 (Tables 2 and 3). However, in some of the other East Asian countries, there have been accusations of governments having sided with the employers leading to simmering discontentment among workers. This exploded violently in major **labour** unrest and strikes in Korea in 1987-89 (Table 2) following the democratization of the country. Taiwan and Indonesia, which have taken less stringent attitude **towards labour unions following pressure of trade sanctions from 7 JSA since 1984, also show an** increase in the incidence of strikes since then, reflecting a suppressed industrial relations climate in these countries.

In India, strikes and lockouts are governed by the Industrial Disputes Act which provides channels (**Labour Courts, Industrial Tribunals, and National Tribunals**) for voluntary arbitration, or at government's discretion, even compulsory arbitration if an agreement between employer and employees to mutual satisfaction is not forthcoming. However, compulsory arbitration is not common in practice. In India, the strikes can be called at the whims of **labour** leaders and (at least in practice) do not require any advance notice or cooling off and conciliation procedure before actually going on strike. This, combined with a high level of unionization in the organized sector and large number of unions per establishment or industry, leads to union rivalries which makes settlement of disputes difficult. A low rate of growth of real earnings per worker (Figure 2) has further **fueled** worker discontentment. As a result, the industrial **relations** climate in India is not good and a **large** number of workdays are lost due to strikes and lock-outs ■ in fact, more than in any other major country (Tables 2 and 3).

**Table 2: Number of Strikes and Lockout and Working Days Lost as a Result
in East Asia and India, 1951 -92.**

YEAR	INDIA		INDONESIA		KOREA		MALAYSIA		SINGAPORE		THAILAND		TAIWAN	
	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)	No. of strikes, lockouts	Working days lost (Thousands)
1958	1524	7798	55	14	39		69	59	22	78	4	4		
1960	1583	6537	64	44	256		37	42	45	152	2	0		
1962	1491	6121	34	24			95	459	88	165	3	0	64	
1964	2151	7725	21	25	7	2	85	508	39	36	12	1	7	
1966	2556	13846	2	0	12	41	60	110	14	45	17	19	3	
1968	2776	17244	2	0	16	63	103	280	4	11	14	3	30	
1970	2889	20563			4	9	17		5	3	22	8	92	
1972	3243	20544	1	0			66	33	10	18	34	20	217	
1974	2938	40262	6	0	58	17	85	104	10	5	357	508	494	
1976	1459	12746	6	1	49	17	70	109	4	3	133	496	371	
1978	3187	28340	20	5	102	13	37	35	0	0	21	9	506	
1980	2856	21925	198	34	206	61	28	20	0	0	18	5	700	
1982	2483	74615	224	73	88	12	26	10	0	0	22	117	1303	
1984	2094	56025	29	2	114	20	19	12	0	0	17	184	1154	
1986	1892	32748	73	109	276	72	27	19	0	0	9	158	1458	
1988	1745	33947	39	109	1873	5401	9	6	0	0	17	40		
1990	1825	24086	61	317	322	4487	17	302	0	0	9	72		
1991	1810	26428	130	535	234	3258	23	23	0	0	14	236		
1992	1388	24701			235	1528				0	18	15		

SOURCE : ILO, Geneva, YEAR BOOK OF LABOUR STATISTICS, 1993, 1985, 1976, and 1966;
Council for Economic Planning and Development, Republic of China, Taiwan Statistical Data Book, 1994.

Table 3: Average Number of Work Days Lost per Employee in the Manufacture Sector in Selected Countries, 1972-81 and 1982-1992.

	1972-81	1982-92
Indonesia	0.004	0.010
Thailand	0.108	0.039
Malaysia		0.004
Korea	0.005	0.216
Singapore	0.010	0.000
INDIA	4.070	5.736
Pakistan		0.039
Sri Lanka	0.079	1.088
Philippines	0.160	0.646
Japan	0.137	0.009
France	0.333	0.168
UK	1.068	0.240
USA	0.819	0.163
Australia	1.286	0.365

SOURCE : ILO, Geneva, YEAR BOOK OF LABOUR STATISTICS, 1993, 1985, 1976, and 1966; Council for Economic Planning and Development, Republic of China, Taiwan Statistical Data Book, 1994.

The Job Security Laws

In most East Asian countries, it is not difficult for the employers to dismiss employees. The grounds on which workers can be dismissed include unjustified absence and misconduct or non-performance of duties properly. Retrenchment, without any fault of the employee, can also be undertaken when employees are found redundant due to technological restructuring of the firm or due to need to reduce or cease production.

In most countries, in cases of dismissals, some government-sponsored mechanism for mediation exists. This is probably most developed in Malaysia, where roughly 80 percent of the cases are resolved in this way. If mediation fails, the labour minister can refer the dispute to the Industrial court (5 to 10 percent of cases), which can order re-instatement or (more commonly) compensation. if dismissal is found to be unjustified. In Singapore, the dismissed employee can appeal, through his union, to the Minister of Labour, whose decision is final. In Indonesia, the government's permission

is required for terminating an employee -- although permission is not very difficult to get.

In cases of retrenchment, free or highly subsidized retraining facilities are provided in many countries -- including in Singapore and Malaysia -- and efforts are made by the labour ministry to find alternative placement for the retrenched workers. There is no unemployment insurance in most East Asian countries, (except some limited benefits in Korea since 1988). However, employers are required to give retrenched workers a written notice of 1 to 3 months (depending on length of service; also varies from country to country). Further, a retrenchment compensation is also required to be paid (applicable only to employees terminated for redundancy and not for those dismissed for misconduct) to those employees who have completed at least one year (three years in Singapore) of service with the same employer. This is equal to one month's pay for each year worked in Singapore, Taiwan, Malaysia and Indonesia. Malaysia requires 1.25 months per year of service for employees working for over 10 years while Indonesia has an upper limit of 4 months' wages plus 1 month's service pay for each 5 years of service. Thailand requires a compensation of 1, 3 and 6 months' wages for employees employed for 4- 12 months, 1-3 years and over 3 years respectively. In Korea a severance pay has to be paid at the time of termination and an unemployment insurance scheme is being developed (not available in other East Asian countries).

India once again presents a sharp contrast. In the organized sector, large firms, i.e., firms employing over 100 (300 before 1984) workers, are not permitted to retrench any worker who has been employed with the firm for at least 240 days, without permission from the government (not applicable to management level employees). If such permission is granted, the firm must give three month's notice to workers, as well as retrenchment compensation of 15 days wages for each year of service with the employer. However, such permission is in fact almost never granted due to pressure from unions. Thus, almost complete job security exists for workers in the organized sector. In the unorganized sector, small-scale firms (employing under 100 workers) may retrench workers but they are required to give a one month's notice in writing and a retrenchment compensation equal to 15 days' pay for each year worked with that employer in the case of employees who have been employed for at least 12 months.

The situation in the organized sector is further compounded by the fact that even the promotions are mostly on the basis of seniority, rather than performance on the job, at least in the public sector (which accounts for about 70 percent of the total employment in the organized sector). This aspect, coupled with almost complete job security, means that there is little incentive for regular employees to work hard or even at all. This leads to serious problems of inefficiency and low productivity from which Indian industry and the public sector is suffering.

The almost complete job security for regular employees in the organized sector is unique to India and a handful of other developing countries and leads to many problems. Firms are not able to rationalize their operations and labour force in response to changing market conditions. Even loss-making firms (referred to as 'sick' firms) are not allowed to close down but given subsidized credit and other facilities to continue operation. The subsidies given to the loss-making firms sometimes helps keep the product prices artificially low which in turn may make other firms in the industry also

become sick. This leads to a huge and ever increasing drain on public resources (Table 4), in addition to the locking-up of valuable capital and labour resources in inefficient production.

Furthermore, attempts by firms to avoid the problems caused by inability to rationalize regular labour force in response to changing market conditions have led to increasing use of temporary, casual or contract workers who do not have any job security or retrenchment compensation (see Table 5). Neither such workers, nor their employers have sufficient incentive for proper work training, etc., again leading to inefficient use of resources.

The labour market policies followed in India in the past have led to serious problems due to low labour productivity even in the context of an economy where the firms were shielded from both international competition (by the very high import tariffs) and domestic competition (by the licensing policies). This in turn creates an inefficient and internationally uncompetitive industrial sector which eventually leads to lower wages [e.g., Indian wages in the manufacturing sector are only one seventh the Singaporean wages (World Economic Forum and IMD, 1991)], fewer jobs, and higher unemployment (e.g. see Fallon and Lucas, 1993). These labour policies will be even more difficult to sustain in the new climate of much increased level of domestic and international competition under the economic liberalization policies.

Table 4: Industrial Sickness In India, 1976 to 1990-1

As at end of Dec.	Units		Outstanding Bank Credit (Rs. Crores ¹)		Total	
	Large & Medium	Small	Large & Medium	Small	Number	Outstanding bank credit (Rs.Crores ¹)
1976	241	N.A.	609	N.A.	N.A.	N.A.
1978	344	6278	1061	134	6622	1195
1980	1401	23149	1502	306	24550	1809
1982	1622	58551	2017	569	60173	2585
1984	1731	91450	2759	880	93282	363%
1986	1964	145776	3568	1306	147740	4874
1988	2011	240573	5564	2141	242584	7705
1989-90	2269	218828	6926	2427	221097	9353
1990-91	2337	221472	7976	2972	223809	10768

Note: 1. Rs one Crore equals Rupees 10 million.

Source: Centre for Monitoring Indian Economy, "Basic Statistics Relating to Indian Economy". August 1993.

Table 5: Percent Distribution of All Workers (Main and Marginal) by Employment Status:
Usual Status. Adjusted figures (urban)

Employment Status/NSS RND	Males			Female		
	Self Emp.	Regular Wage & Salaried employees	Casual Labour	Self Emp.	Regular + Salaried	Casual labour
27 th (1972-73)	39.2	50.7	10.1	48.4	27.9	23.7
32 nd (1977-78)	40.4	46.4	13.2	49.5	24.9	25.6
38 th (1983)	40.9	43.7	15.4	45.8	25.8	28.4
47 rd (1987-88)	41.7	43.7	14.6	47.1	27.5	25.4

Source: S. Mukhopadhyay, Indian Journal of Labour Economics, 1992, Vol 35, No.3, p 263.

Determination of Wages

Minimum wage laws exist in most of the East Asian countries and India mainly for the unskilled workers. However, in most cases (including India) the minimum wages so set are close to the market clearing levels, and are not enforced seriously except in cities.

The wages for the public sector employees are usually set by government appointed bodies in some countries (for example, India and Singapore) in consultation with representatives of employees.

The wages for the private sector employees in East Asia are usually decided by employers or by bilateral agreements between employee unions and employers. When agreement between the two parties is not forthcoming, there exist mechanisms for government-mediated conciliation proceedings in most countries of East Asia. If these also fail there exist mechanisms for voluntary or compulsory arbitration by the labour ministry (Singapore and Indonesia) or by industrial courts (Thailand and Malaysia). Thus, in most cases these issues are settled without resorting to strikes.

In Singapore and India, governments have played an active role in the determination of wages even in the private sector. In Singapore since 1972, wages have been mostly decided at the national level by the National Wages Council, a tripartite body with equal representatives from labour, management and government, and with a chairman from academia who is without any factional identification. The Council was essentially a negotiating body at the national level with the government serving an integrative third party role. Although wage guidelines were only advisory, they were generally followed. This had the advantage that wages did not have to be negotiated at each factory or industry level and the resulting friction between labour and management was avoided. However, it also had the disadvantage that wage increases, being the same across the board, did not reflect the profitability of individual firms or industry. This point hit home after a severe recession (the first since independence in 1965) struck in 1985 after several large wage increases since 1979. The recession resulted in a thorough review of wage (and other) policies. The government accepted the recommendation that Singapore should adopt a Japanese-style flexible wage system with the wage consisting of a fixed component plus a variable component in the form of bonus of 1 to 3 months' wages (subject to a minimum of 1 month's wages) which is linked to profitability or worker productivity in individual enterprises. The recommendation was also endorsed by the trade union movement and employers.

In India, the government has appointed over 20 wage boards to determine wages to be paid (to blue collar workers) in most major industries. The wage boards are typically tripartite, consisting of the representatives of management, workers, and government. The recommendations of the wage boards are not **statutorily binding**, although both **labour** and management tend to accept them. Some stronger unions can bargain for higher wages than recommended by wage boards. The settlement of wages through tripartite wage boards has moderated an important source of industrial conflict.

The bargaining power of unions in most countries of East Asia is limited, due to factors such as the presence of mostly enterprise-level (rather than industry-level) unions, limited legal scope for strikes and a climate of political repression of unions in many of the countries. However, due to the rapid increase in employment opportunities (see Figure 1), unemployment levels declined rapidly over the 1970s to close to natural levels of unemployment (except in Indonesia) and even **labour shortages** began to appear in many skilled categories. This has meant that despite the limited bargaining power of unions, wages have grown rapidly in East Asia, especially over the 1980s and early 1990s (Figure 2). **On the other hand they have not grown so rapidly in India despite the presence of much stronger unions.**

Bonus: The Flexible Wage System

The Japanese style flexible wage system is becoming increasingly common in East Asia. In this system, the wage consists of a fixed component plus a variable component in the form of bonus. The **fixed** wage component usually includes a basic wage, a small annual increment of 2 percent of basic wage and an Annual Wage Supplement equal to one month's wage. The bonus **links** wages with performance - performance of the individual, the company, and the economy. The bonus can be as much as 1 to 5 months' wages in Japan and Korea and 1 to 3 months' wages in Singapore. This system helps firms to survive recession by reducing **labour** cost during recessions. It also helps workers, since reduced **labour** cost also means that the **firm** can keep more, even all, of the workers employed through the recession. However, the most important benefit of this system may be that by **giving the workers a stake in the profitability of the firm, it makes them more co-operative and responsible towards their employers.**

In fact, in Singapore and Malaysia the policy of flexible wages has been adopted even for the public sector employees with their bonuses linked to the rate of growth of GDP. This has the advantage of reminding the public sector employees that they have a stake in a better performing economy, besides receiving wages that are in line with the government's tax receipts, which are roughly proportional to GDP.

Returning to the private sector, in some countries (Japan, some enterprises in Singapore and Korea), while the total bonus amount is decided by the profitability of the company, the amount given to each individual can be varied to reflect his performance on the job. When a good and just performance appraisal system is followed, a strong incentive is created for workers to try to put in their best. Besides monetary gain, recognition as a good worker itself can be a highly motivating **force. However, this system of flexible wages can work only when a good and just system is** developed to appraise workers and to determine profitability of firms. Otherwise it can lead to disaffection and loss of morale. For example, in 1981, Singapore experimented with **performance-**

related bonuses, but it was abandoned a year later due to lack of a satisfactory performance appraisal system at most firms.

In India, the Payment of Bonus Act (1965) currently requires the payment of a bonus to all blue-collar employees in most industries (except most public sector enterprises). The minimum bonus, which is required to be paid whether or not the firm makes any profits, is 8.33 percent (4 percent before 1971) of the annual salary of the worker, and the maximum is 20 percent of the annual salary, depending on the profitability of the firm. In practice, a bonus of one month's salary is required and more than that is rarely given. Thus, essentially the flexible wage system does not exist in India. Furthermore, promotions are mostly on the basis of seniority, at least in the public sector. This leads to a poor incentive structure for employees to work hard, resulting in low worker motivation and productivity improvement.

Improving Labour Training and Productivity

Many governments in East Asia, such as Korea and Singapore, have undertaken many programmes to improve education, training, and productivity of the workers, especially over the 1970s and 1980s, when a restructuring of the economy towards more capital- and skill-intensive industries was initiated. Besides doing well in the basic and advanced general education, these countries have laid much greater emphasis than India on vocational training, both formal and in-firm. For example, under the Basic Law for Vocational Training, enacted in 1976, Korea required private enterprises with 300 (now 150) or more employees to conduct in-plant training for a stated proportion of their employees or to pay a training levy of 6 percent (now less) of their wage bill. The levy is used for promoting vocational training via government-sponsored vocational training schools.

Similarly, Singapore initiated several programmes to improve the skill level of its workers. Some of the main programmes are:

- i) Rapid expansion of facilities and enrolment in the universities and polytechnics to provide for highly trained manpower.
- ii) Establishment of the Vocational and Industrial Training Board (VITB) in 1979 for vocational training in commerce and industry.
- iii) Establishment of the Skills Development Fund (SDF) in 1979, financed initially with a 4 per cent levy on wages (since reduced to 1 per cent) to subsidize efforts at upgrading the skills and expertise of employees or retraining of retrenched workers. Between 1981 and 1990, the annual number of worker training places increased by more than 12 times from 32,600 to 405,600. This means that 1 in 3 Singapore workers is trained every year!
- iv) Launching of the Basic Education for Skills Development (BESD) programme to impart to workers basic numerary and literary skills. Similar programs for higher level attainment were also initiated.
- v) Establishment of the National Productivity Board (NPB) in 1972 and the National Productivity Council in 1982 to promote productivity consciousness in Singapore. For example NPB launched the Productivity 2000 project in 1989 to study key issues relating to productivity. Their recommendations are being implemented with the tripartite support of employers, government, and the National Trade Union Congress.

Overall, several East Asian countries, especially the more advanced countries such as Korea and Singapore, have made vigorous efforts to create a well trained labour force. They have emphasized vocational training (both in-firm and public) for their employed workers as well as free or highly subsidized re-training facilities for retrenched workers.

Conclusions

In the East Asian countries, labour laws are generally supportive of efficient and flexible use of labour. A peaceful industrial relations climate has been maintained in most countries with the help of laws requiring a cooling off period (about one month) before a strike can be called and through the use of voluntary and compulsory arbitration. As a result, strikes and work stoppages are uncommon. Further, firms can retrench workers, although they must pay a retrenchment compensation (typically equal to one month's wage for each year of employment with the firm). This provides flexibility in the use of labour and also forces a certain discipline on workers. Industrialists therefore want to hire them, leading to a faster growth of employment and wages.

The Japanese-style flexible wage system has also been adopted by Korea, Malaysia and Singapore. By giving the workers a bonus which depends, at least to some extent, on their company's profitability, it can make workers more co-operative and responsible. By linking the amount of bonus (and promotions) each individual worker receives to his work performance, incentives can be created for good performance even in the presence of considerable job security, as is the case in Japan. Thus, the East Asian countries have generally succeeded in creating a highly disciplined, motivated and flexible labour force. For example, the World Economic Forum and IMD (1991) survey rated Singapore's labour as the most motivated among the ten major newly industrializing countries. Korea was rated second and Thailand fourth.

On the other hand, the protective labour laws of India give the organized sector workers in India permanent employment after a brief (typically one year or less) probation period. Employees cannot be fired without government permission (which is rarely given) even when the firm becomes non-viable. In the public sector they typically receive fixed annual wage increments unrelated to work performance. There is little incentive to work hard which results in poor productivity. This eventually leads to low wages, fewer jobs, and higher unemployment. This is demonstrated by the fact that India has high unemployment while most East Asian countries have essentially none, despite wages that are many times India's. The experience of East Asia and India demonstrates that excessive protection of labour is not in its own long term interest.

A caveat is in order here: it should be noted that the rapid growth of employment and real earnings per employee in East Asia is the combined result of a whole range of export-oriented industrialization policies. It would be unrealistic to expect such rapid growth in employment and earnings per employee in other countries merely as a result of the labour policy reform. However, when combined with other economic reforms towards export-oriented industrialization policies, they can help achieve higher growth of employment and earnings per employee. Since India has already undertaken most other reforms towards an export-oriented industrialization policy, it is now well poised to benefit substantially from labour policy reforms that would result in higher growth of employment and real earnings per employee.

The features of labour policies in East Asia that merit particular attention for India are the following:

- (1) Laws that limit the number of unions, possibly to only one per enterprise. This actually increases the bargaining strength of the workers, while at the same time making it easier to make agreements by reducing the element of union rivalries. However, such enterprise level unions should be allowed to have industry- wide federations.
- (2) The requirement to approve a call for strike by a majority of union members using secret ballot and the cooling-off period of 30 days or so, during which strikes can not be called and which is utilized to try to bring about reconciliation between workers and management. This ensures that unnecessary strikes called in the heat of the moment or due to ego clashes between a few (sometimes irresponsible) union leaders and /or management representatives are avoided without sacrificing genuine worker interests.
- (3) Some flexibility in the use of labour has to be allowed while recognizing that a reasonable degree of job security is a genuine worker need. It clear that refusing to allow non-viable firms to exist on the basis of public subsidies is not sustainable in the long run. Thus, retrenching has to be allowed for firms who must reduce or cease production or who must re-organize technologically to meet competition. Similarly, employers have to be given some way out from employees who misbehave or do not work properly on the job. At the same time, to ensure that employees do not use such exceptions to dismiss workers at will, they have to be required to prove in a court of law the employee's misconduct before being allowed to dismiss any worker. To give blanket job security under all circumstance makes it very difficult to maintain worker discipline and reduces worker motivation to try to become more productive.
- (4) The Japanes-style flexible wage system, which gives workers a stake in company profitability and where promotions are significantly dependent on good performance on the job, creates incentives for the workers to try to improve their skills and co-operate in improving productivity. This might be a good and politically acceptable way to improve productivity in countries like India with a strong tradition of job security.

The above features of labour relations policy, along with a good system of vocational training and worker skill development can considerably enhance labour productivity, employment and real earnings per employee in India.

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